

THE BUSINESS TRAVEL *MAGAZINE*

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For corporate travel and meetings arrangers



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REVIEW
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The price is right... ...OR IS IT?

Do best-buy deals, so popular when purchasing airline seats, undermine negotiated rates or can they live alongside each other? Andy Hoskins gathers together the opinions of three interested parties on the pros and cons of both buying options



Jackie Lacey
MANAGING DIRECTOR,
CHELSEA TRAVEL
MANAGEMENT

THE TMC

Jackie Lacey was appointed Managing Director of Chelsea Travel Management in 2004 following the company's acquisition by parent company P&P. Formerly working as Sales Director within the travel division of Chelsea FC, she now has the responsibility of managing the strategic development of the P&P Group's corporate division, CTM.

"Best-buy policies and negotiated corporate rates both have their place in travel management but it really depends on the corporate mix of business as to which – or if both – can be successfully employed.

Our portfolio of clients is comprised primarily of SMEs who recognise the short-term savings achievable through 'best-buy' policy. Invariably, though, we will look at the travel volumes and patterns, and the needs of the client, before proceeding down one particular path.

It's a careful balancing act. There is definitely still room for people to take advantage of corporate deals but they do require careful monitoring. I believe more businesses are moving towards best-buy because they can see the immediate upfront, short-term savings.

However it's important to consider the element of business being booked that will always require flexibility and therefore cannot take advantage of the cheaper deals.

Often these fares are limited in terms of availability and on offer through set periods, which is why negotiated rates shouldn't be ignored. Cost-saving incentives don't always pay off in year one – it's a longer-term project involving the TMC's work and guidance with its clients.

Best buy and negotiated rates can work alongside each other, but just how well it works depends largely on the clients controlling their travel policy.

As a TMC it is our responsibility to guide on what will work, making sure that if there are negotiated deals running alongside best buy fares then everyone is clear on the requirement. We have not yet seen best buy fares undermine negotiated rates – I guess this is down to structuring the right agreements. It's our job to raise all this at the discussion table in order to achieve the right result for all parties.

In terms of air fares, around 20 per cent of our clients still work with negotiated corporate deals. Many corporate companies don't realise that airlines are still willing to work on deals because they are looking for customer loyalty and the scope to increase market share.

The real best-buy savings are there to be made on economy air fares, whereas a company with high levels of business class travel that requires scope to change tickets is more likely to be better off working on a deal with the airline.

Negotiated rates work well for multi-national companies with this kind of premium traffic that requires flexibility, but in the longer term airlines may well need to consider how they continue to reward for loyalty in the premium cabins if turnover falls in favour of best buy

fares. In future many of these deals may only be reserved for high-volume business.

When it comes to hotels, I think there is much less consistency. Different chains all have their own pricing strategies and a more ad hoc approach is therefore required. I would say most of our clients use best-buy policy when it comes to accommodation but again it depends on their individual needs.

Best-buy does of course affect our productivity as a TMC – it takes time to search around for the best fares but that is part of the service we offer. We're more than just a booking agency. Travel management companies exist to add value for a client – you can't replace our skills with a computer. Complex itineraries and negotiations with suppliers need expert human interaction.

Negotiated rates have certainly not had their day yet and it's crucial that companies don't assume best buy is the way forward. And that goes for SMEs in particular who may assume they don't have the volumes to get corporate deals in place."

"Hotel chains all have their own pricing strategies and a more ad hoc approach is therefore required"



Suzanne Brander
PROCUREMENT CONSULTANT,
BUYINGTEAM

THE PROCUREMENT CONSULTANT

Suzanne Brander is a purchasing professional with 18 years experience across a range of European and global sectors, including manufacturing, consultancy and agriculture. Having previously worked in purchasing manager roles within multi-site environments, she now works in a client-facing consultancy business focused on driving out indirect spend – particularly business travel – in national and multi-national businesses.

"As a company, buyingTeam help clients buy better. This is normally within the indirect spend for goods, products and services, which can be everything from stationery to business travel. buyingTeam provides additional expert resource, market knowledge and specialist infrastructure to find, implement and manage opportunities for purchasing improvement.

Within the area of business travel, the way buyingTeam operates is determined by what is best for the client, so a 'cheapest on the day' policy will work well for some, while the full utilisation of negotiated rates will work best for others.

This is mainly driven by different companies' travel policy and pattern. For example, a company that has a business travel policy on a specific route will no doubt benefit as it is the higher fares that tend to attract a discount.

Our clients vary in size and sector – we work with various industries, from entertainment, pharmaceuticals and agricultural, to industrial and the public sector – and many of our clients opt for a combination of the two methods.

Almost every company has some kind of travel spend and keeping control of it is almost as important as reducing costs. buyingTeam can work in two ways, either with the client's travel management company, which helps to consolidate the spend and return meaningful data, but we also work directly with the airlines using our own data. Working in the latter way would discount any commission for the travel management company. The negotiations are dependent on volumes of routes and bookings that the client can forecast.

In general, we find negotiated rates are more

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commonplace when it comes to accommodation requirements, while cheapest on the day is used more regularly when purchasing air travel.

Because competition is so rife among the airlines – particularly in the UK – we find that cheapest on the day will invariably achieve better cost savings. The utilisation of negotiated airline deals would usually capture or pick up the fall out from the cheapest on the day policy except in circumstances where the seniority of an employee would always dictate a higher class of travel.

Cheapest on the day can also be more labour intensive for the TMC. To assist with this suppliers need to ensure as much content as possible is in the GDS to secure best price through this distribution channel rather than other methods such as websites.

The ability of travel agent staff to quickly identify best value is also key, particularly if the client is working on a management fee with the TMC as opposed to a transaction fee. Experienced and proactive staff who know how best to find those fares is a must.

Problems can arise when the volumes indicated during negotiations are not met. Predicting future travel spend can be very difficult, especially for companies that grow by acquisition and have special projects in different areas of the world – this can have a major impact on the travel profile and pattern.

It is useful to remember that this can also effect the negotiations in a very positive way and savvy purchasers will always be on the lookout for trends and unusual increase of activity within certain areas.

It's actually quite hard to measure the immediate savings of cheapest on the day against longer-term negotiated deals, in addition to this there is always an element of cancellation for cheapest on the day tickets.

If this were to be analysed and the cost associated to it offset against the higher (discounted) fares there would be an impact on the real saving.

We see larger corporations opting for negotiated rates because they have the volumes to achieve good discounts and know those volumes will be met, plus they have destinations to which they are regularly travelling.

I believe best-buy is a trend that will evolve. It's a relatively new thing that some suppliers and corporate are still getting to grips with, and, other than the potential cost-savings in store for procurement departments, there are few other obvious benefits.”



Nick Grandvoinet
VICE PRESIDENT SALES, EMEA,
INTERCONTINENTAL HOTELS GROUP

THE SUPPLIER

Nick Grandvoinet became Vice President Sales EMEA at InterContinental Hotels Group in November 2006. He has 22 years of sales experience across a range of disciplines in the leisure and travel industries including Carlson Wagonlit Travel (1993-1997), starting as Sales Director and going on to become Corporate Sales Director, where he was responsible for winning a series of major international accounts, and Avis Europe where he was Director of Corporate Sales until 2006.

“Dynamic pricing is a rate which is negotiated as a percentage discount off our best flexible rate, rather than a static flat rate that remains the same throughout the year. Good examples of how this works include our Corporate Gold Programme. This is being well received by an increasing number of our corporate accounts due to its flexibility.

Dynamic pricing does have its pros and cons. For the customer it provides consistency with a set percentage below the market rate, which can result in a lower level of rate increase when it comes to negotiating deals. Also, less time is spent on laborious RFPs and the late room availability issue goes away.

We are in a world where revenue management principles are adopted more than before across all segments and consequently a fixed-rate model looks increasingly outmoded.

However, dynamic pricing may not suit all accounts. Initially, you could argue that there is less certainty because customers cannot quote a fixed rate for the year, although they can

show how they will undercut the market with their negotiated discount. Value is seen firstly theoretically and then retrospectively – account management reviews and close monitoring are crucial for customers that need to demonstrate the value internally. Another stumbling block is the fact that not all systems can handle dynamic pricing, though we are lobbying people on this and we are making progress.

In terms of our client base, we are seeing a growing minority adopting dynamic pricing in two particular scenarios. First, in tertiary locations – where 80 per cent of locations account for 20 per cent of spend – where a discount off the market rate avoids the need to negotiate for many properties but still allows an impact from a customer's leverage. Second, in high demand locations where demand outstrips supply. In this instance, dynamic pricing can be an attractive way to control rate increases and ensure availability.

In reality, hotel companies have presented dynamic pricing in the wrong way. It's not a blanket approach or a cure all. It should be sold on a case-by-case basis and not imposed on the market. We need to know the profile of the customer, their culture, their spend. Dynamic pricing is a tool in the box which for certain accounts will be the right solution.

As an organisation we have been promoting dynamic pricing for the past 18 months to two years and a growing percentage of clients are taking it up. TMCs are on a similar learning curve – we're helping them understand its pros and cons and improving their RFP tools to be able to handle it. We anticipate seeing a greater take up of dynamic pricing across the current RFP season. We are on a journey – a marathon, not a sprint!”